BUDGET REQUIREMENTS OF THE VETERANS' CANTEEN SERVICE

HEARING

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON VETERANS' AFFAIRS HOUSE OF REPRESENTATIVES

EIGHTY-SECOND CONGRESS

SECOND SESSION

ON

H. R. 5647

A BILL TO CLARIFY THE BUDGET PROGRAM REQUIREMENTS RELATING TO THE VETERANS' CANTEEN SERVICE

MAY 20, 1952

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BUDGET REQUIREMENTS OF THE VETERANS' CANTEEN SERVICE

TUESDAY, MAY 20, 1952

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON H. R. 5647 OF THE
COMMITTEE ON VETERANS AFFAIRS,
Washington, D. C.

The subcommittee met, pursuant to call, at 2:10 p. m., in the committee room, Old House Office Building, Hon. Hamilton C. Jones (chairman of the subcommittee) presiding.

Present: Representatives Jones (presiding) and Sittler.

Mr. JONES. The subcommittee will come to order.

We are meeting this afternoon to consider the bill, H. R. 5647, the primary purpose of which is to eliminate the requirement that the Veterans' Canteen Service cover into the Treasury as miscellaneous receipts any balance in the revolving fund to close the fiscal year in excess of the requirements for the ensuing fiscal year. This requirement presently prohibits the reserving of funds for estimated requirements beyond the ensuing fiscal year.

The bill was introduced by the Chairman at the request of the Veterans' Administration and this organization urges its enactment with the belief that the proposal would not result in any additional cost to the Government and actually might result in a saving. The Comptroller General has advised the committee that he has no objection to this proposal.

Without objection, there will be inserted at this point in the hearings copy of the bill, together with the report of the Veterans' Administration and the General Accounting Office.

(The documents referred to are as follows:)

[H. R. 5647, 82d Cong., 1st sess.]

A BILL To clarify the budget program requirements relating to the Veterans' Canteen Service

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 6 of the Act entitled "An Act to establish and provide for the maintenance and operation of the Veterans' Canteen Service in the Veterans' Administration, and for other purposes", approved August 7, 1946 (60 Stat. 889; 38 U. S. C. 13e), is amended by inserting ", as amended," after "Government Corporation Control Act" in the first sentence thereof, and deleting the remainder of the section.

[No. 192]

COMMITTEE ON VETERANS' AFFAIRS, HOUSE OF REPRESENTATIVES

VETERANS' ADMINISTRATION,
Washington 25, D. C., October 5, 1951.

HON. SAM RAYBURN,
Speaker of the House of Representatives,
Washington 25, D. C.

DEAR MR. SPEAKER: There is enclosed a draft of a bill entitled "A bill to clarify the budget program requirements relating to the Veterans' Canteen Service," proposing to amend section 6 of the act of August 7, 1946 (60 Stat. 889; 38 U. S. C. 13c). It is requested that this bill be introduced and considered for enactment.

The purpose of the proposal is to so amend section 6 of the act of August 7, 1946, relating to the annual budget program of the Veterans' Canteen Service, by deletion of certain language thereof, as to provide for full conformity with the budgetary program provisions of the Government Corporation Control Act, as amended (59 Stat. 598; 31 U. S. C. 847–849). As a result of such amendment, the Veterans' Canteen Service would be able to maintain needed reserves and provide for planned future outlays, as hereafter explained. For the sake of clarity and ease of comparison, section 6 of the act of August 7, 1946, and an extract of section 102 of the Government Corporation Control Act (which specifies the form, content, and manner of presentation of the budget) are reproduced at this point.

The present wording of section 6 is as follows:

"The Service shall prepare annually and submit a budget program as provided for wholly owned Government corporations by the Government Corporation Control Act *which shall contain an estimate of the needs of the Service for the ensuing fiscal year, including an estimate of the amount required to restore any impairment of the revolving fund resulting from operations of the current fiscal year. Any balance in the revolving fund at the close of the fiscal year in excess of the estimated requirements for the ensuing fiscal year shall be covered into the Treasury as miscellaneous receipts.*" [Italics supplied.]

The italicized material is that which is proposed to be deleted.

The pertinent portion of section 102 of the Government Corporation Control Act which will be applicable if this proposal is enacted, reads as follows:

"The Bureau of the Budget, under such rules and regulations as the President may establish, is authorized and directed to prescribe the form and content of and the manner in which such budget program shall be prepared and presented. The budget program shall be a business-type budget, or plan of operations, with due allowance given to the need for flexibility, including provision for emergencies and contingencies, in order that the corporation may properly carry out its activities as authorized by law. The budget program shall contain estimates of the financial condition and operations of the corporation for the current and ensuing fiscal years and the actual condition and results of operation for the last completed fiscal year. Such budget program shall include a statement of financial condition, a statement of income and expense, an analysis of surplus or deficit, a statement of sources and application of funds, and such other supplementary statements and information as are necessary or desirable to make known the financial condition and operations of the corporation. Such statements shall include estimates of operations by major types of activities, together with estimates of administrative expenses, estimates of borrowings, and estimates of the amount of Government capital funds which shall be returned to the Treasury during the fiscal year or the appropriations required to provide for the restoration of capital impairments."

It will be noted that the requirements of the two acts are similar, although not identical. Until this year Veterans' Canteen Service acted on the premise that the language which is now proposed for deletion was a short form restatement of the specifications as to the content of the annual budget program contained in the Government Corporation Control Act and that the procedures prescribed by the Bureau of the Budget implementing that act were to be followed. This is believed to be in accord with the original intent of Congress in directing that the Veterans' Canteen Service should submit an annual budget program as is required in the case of wholly owned Government corporations. Consistent with this understanding and with sound business practices, the annual budget programs submitted by the Veterans' Canteen Service have included estimates of amounts required for the activation of canteens at certain new hospitals scheduled for completion and

for replacement of equipment at existing hospitals. Such budgetary recognition of expenses to be borne by the revolving fund of the Veterans' Canteen Service has in each instance received the approval of the Bureau of the Budget. This normal business practice of maintaining certain necessary reserves has also been brought to the attention of the General Accounting Office each year at the time of its annual audit of the Veterans' Canteen Service.

In connection with its audit of the Veterans' Canteen Service for the fiscal year 1950, the General Accounting Office for the first time questioned in its audit report the authority of the Veterans' Canteen Service to maintain reserves for the afore-mentioned requirements beyond the fiscal year next succeeding the last completed fiscal year. In a letter to the Assistant Administrator for Special Services dated March 8, 1951, the Director, Corporation Audits Division, General Accounting Office, stated as follows:

"The Comptroller General has stated that the Congress has specifically directed that any funds in excess of the estimated requirements for the ensuing fiscal year shall be covered into the Treasury as miscellaneous receipts. Any attempt or proposal to reserve funds for estimated requirements beyond that period would be a direct violation of the congressional mandate. While it may be that the course sought to be pursued is more desirable from an administrative standpoint, there is no present authority therefor. Accordingly, if the Veterans' Canteen Service desires to proceed on the basis indicated, it will be necessary to secure enabling legislation."

This interpretation of existing law was confirmed by the report transmitted to Congress by the Comptroller General on April 25, 1951. (H. Doc. 117, 82d Cong., p. 9).

In view of the position taken by the Comptroller General, enabling legislation is indicated in order that there may be no question of the authority of the Veterans' Canteen Service to continue the sound business practice of maintaining a cash reserve equivalent to the reserve for depreciation, or to retain capital needed for the activation of canteens in new hospitals which will not be completed in the ensuing fiscal year. The primary function of the Veterans' Canteen Service is that "of making available to veterans of the Armed Forces of the United States who are hospitalized or domiciled in hospitals and homes of the Veterans' Administration, at reasonable prices, articles of merchandise and services essential to their comfort and well-being." As this mission must receive first consideration, and since the Veterans' Canteen Service must conduct its operations substantially on a self-sustaining basis, it is not possible to assure that current revenues will be sufficient to provide adequate working capital for current needs, much less that they will be sufficient to provide for the replacement of equipment and activation of new canteens during this period of expansion of Veterans' Administration facilities, unless necessary reserves can be maintained.

It should be noted that the retention of operating capital for justifiable requirements beyond the period of the ensuing fiscal year has not prevented the Veterans' Canteen Service from making substantial returns to the Treasury. The Veterans' Canteen Service has already returned $1,665,000 to the Treasury, which includes $200,000 returned in June 1951. The budget for fiscal year 1952, as submitted by the President to the Congress, includes an estimate of $558,000 to be returned to the Treasury in fiscal 1952.

Finally, it would appear that inasmuch as the budget of the Veterans' Canteen Service must be prepared and submitted to the Bureau of the Budget, as provided for wholly owned Government corporations by the Government Corporation Control Act, and since the accounts of the Service are audited annually by the General Accounting Office, there is more than ample assurance of executive control over the fiscal operations of the Veterans' Canteen Service, including the control over return of funds to the Treasury.

It is believed that the proposed amendment would permit the Veterans' Canteen Service the flexibility of operations which was intended by the Congress when it originally prescribed the financial operations of the Veterans' Canteen Service in that it would permit the submission of a budget program identical with those prescribed for wholly owned Government corporations. It would allow no greater flexibility than is permitted other Federal revenue-producing activities subject to the Government Corporation Control Act.

Enactment of the proposed legislation would not result in additional cost to the Government.

Advice has been received from the Bureau of the Budget that it has no objection to the presentation of the draft bill to the Congress for its consideration.

Sincerely yours,

CARL R. GRAY, JR., *Administrator.*

A BILL To clarify the budget program requirements relating to the Veterans' Canteen Service

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 6 of the Act, entitled "An Act to establish and provide for the maintenance and operation of the Veterans' Canteen Service in the Veterans' Administration, and for other purposes", approved August 7, 1946 (60 Stat. 889; 38 U. S. C. 13c), is amended by inserting ", as amended." after "Government Corporation Control Act" in the first sentence thereof, and deleting the remainder of the section.

[No. 241]

COMMITTEE ON VETERANS' AFFAIRS, HOUSE OF REPRESENTATIVES

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington 25, February 6, 1952.

Hon. JOHN E. RANKIN,
Chairman, Committee on Veterans' Affairs,
House of Representatives.

MY DEAR MR. CHAIRMAN: I have your letter of January 30, 1952, enclosing a copy of the bill H. R. 5647, Eighty-second Congress, first session, entitled "A bill to clarify the budget program requirements relating to the Veterans' Canteen Service." You request my comments and recommendations relative to the bill and an estimate of the cost thereof.

The primary purpose of the proposed legislation is to eliminate the requirement of section 6 of the act entitled "An act to establish and provide for the maintenance and operation of the Veterans' Canteen Service in the Veterans' Administration, and for other purposes," approved August 7, 1946 (60 Stat. 889), that any balance in the revolving fund at the close of the fiscal year in excess of the estimated requirements for the ensuing fiscal year shall be covered into the Treasury as miscellaneous receipts. This requirement prohibits the reserving of funds for estimated requirements beyond the ensuing fiscal year.

The General Accounting Office considered this matter prior to its submission to the Congress. In a report, dated August 22, 1951, B–56092, to the Director, Bureau of the Budget, a copy of which is enclosed herewith for the information of your committee, it was noted that under the provisions of the proposed bill the Service would submit its annual budget program as provided for wholly owned Government corporations in the Government Corporation Control Act, as amended, which contains no provision prohibiting the retention of excess funds needed for periods subsequent to the ensuing fiscal year. The budget could therefore provide for cash reserves to meet the estimated needs during a reasonable period of time as approved by the Bureau of the Budget. The budget will be subject to review by the Congress and this Office will have the opportunity to make any comments deemed appropriate in its annual report to the Congress on the audit made pursuant to section 7 of the cited act of August 7, 1946. Under these circumstances, and since it appeared that the amount of cash reserve to be retained will be subject to budgetary control, I offered no objection to the proposed legislation.

The bill, H. R. 5647, is identical to the original proposal considered by this Office and, for the reason stated, I have no objection to the favorable consideration thereof.

The language following the words "Government Corporation Control Act" in the first sentence of the section as now constituted, proposed to be deleted by the proposed legislation, appears properly for deletion since the requirements covered thereby are contained in the Government Corporation Control Act, as amended.

It would not appear that the enactment of the bill should result in any additional cost to the Government.

Sincerely yours,

LINDSAY C. WARREN,
Comptroller General of the United States.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington 25, August 22, 1951.

HON. FREDERICK J. LAWTON,
Director, Bureau of the Budget.

MY DEAR MR. LAWTON: Reference is made to letter dated July 23, 1951, from the Assistant Director, Legislative Reference, requesting an expression of the views of this Office with respect to the draft of a proposed bill entitled "To clarify the budget program requirements relating to the Veterans' Canteen Service" submitted to your Bureau by the Veterans' Administration.

The proposed legislation provides as follows:

"*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That section 6 of the Act, entitled 'An Act to establish and provide for the maintenance and operation of the Veterans' Canteen Service in the Veterans' Administration, and for other purposes', approved August 7, 1946 (60 Stat. 889; 38 U. S. C. 13c), is amended by inserting ', as amended,' after 'Government Corporation Control Act' in the first sentence thereof, and deleting the remainder of the section."

The primary purpose of the proposed legislation is to eliminate the requirements in section 6 of the act of August 7, 1946 (60 Stat. 889), that any balance in the revolving fund at the close of the fiscal year in excess of the estimated requirements for the ensuing fiscal year shall be covered into the Treasury as miscellaneous receipts, which by its plain terms prohibits the reserving of funds for estimated requirements beyond the ensuing fiscal year. The audit of the Veterans' Canteen Service for the fiscal year ended June 30, 1950, performed by this Office under the provisions of section 7 of the cited act discloses that the service retained funds in excess of the estimated requirements for the fiscal year ended June 30, 1951. Since the service stated that it would request legislation to allow the retention of excess funds needed for a period longer than the ensuing fiscal year, no recommendation with respect to the covering of the excess funds into the Treasury was made in the audit report to the Congress. See page 9 of House Document No. 117, Eighty-second Congress, containing the audit report.

Under the provisions of the proposed bill the Service would submit its annual budget program as provided for wholly owned Government corporations in the Government Corporation Control Act, as amended, which contains no provision prohibiting the retention of excess funds needed for periods subsequent to the ensuing fiscal year. The budget could, therefore, provide for ample cash reserves to meet the estimated needs during a reasonable period of time as approved by the Bureau of the Budget. The budget will be subject to review by the Congress and this Office will have the opportunity to make any comments deemed appropriate in its annual audit report to the Congress pursuant to section 7 of the cited act of August 7, 1946. However, it is stated in the proposed letter to the Speaker of the House of Representatives, transmitting the proposed bill, as follows:

"* * * enabling legislation is indicated in order that there may be no question of the authority of the Veterans' Canteen Service to continue the sound business practice of *maintaining a cash reserve equivalent to the reserve for depreciation, or to retain capital needed* for the activation of canteens in new hospitals which will not be completed in the 'ensuing' fiscal year. * * *" [Italics supplied.]

In this connection it may be stated that the retention of cash sufficient to fund the reserve for depreciation does not appear to be in accordance with the practices generally followed by Government corporations. However, in this connection see 31 U. S. C. 181c providing for replacement of capitalized equipment and other fixed assets of the Bureau of Printing and Engraving through the maintenance of adequate depreciation reserves. An alternative practice for replacing Government equipment might be one similar to that of Government Services, Inc., where a study is made to determine the equipment to be replaced within the next 2 or 3 years and ample cash reserves for that replacement are provided in the budget. Also, the retention of capital for the activation of canteens in new hospitals well might be limited to the hospitals to be completed within the next 2 or 3 years, but in any event there appears no real basis for retention of capital for needs anticipated beyond hospital programs authorized by the Congress. Furthermore, additional appropriations for activation of new canteens are authorized under the provisions of section 5 of the act of August 7, 1946.

Accordingly, with the understanding that the amount of cash reserve to be retained will be subject to budgetary control, the General Accounting Office has no objection to the proposed bill.

Sincerely yours,

LINDSAY C. WARREN,
Comptroller General of the United States.

Mr. JONES. In view of the fact that none of the service organizations have requested to testify the only witness will be a representative of the Veterans' Administration, Mr. Guy H. Birdsall, from whom we will now hear.

STATEMENT OF GUY H. BIRDSALL, ASSISTANT ADMINISTRATOR FOR LEGISLATION; ACCOMPANIED BY F. R. KERR, ASSISTANT ADMINISTRATOR FOR SPECIAL SERVICES; R. H. BUCKNELL, DIRECTOR, VETERANS' CANTEEN SERVICE; G. H. STALEY, DIRECTOR, MANAGEMENT AND PLANNING STAFF, SPECIAL SERVICES, VETERANS' ADMINISTRATION

Mr. BIRDSALL. Mr. Chairman and Congressman Sittler, the Veterans' Administration furnished a report on this particular bill, H. R. 5647 on October 5, 1951. It was at that time in the form of a draft bill, with explanation and justification, which was furnished to the Speaker of the House, and a like proposal was furnished to the President of the Senate after clearance with the Bureau of the Budget.

Incidentally, the Bureau of the Budget referred our proposal to the Comptroller General, who concurred in the proposal.

The bill was subsequently introduced under this number, and it is identical with the draft that was sent over by the Veterans' Administration after the clearance.

Mr. SITTLER. Did I hear you say the Bureau of the Budget approved the bill?

Mr. BIRDSALL. Yes, sir.

Mr. SITTLER. In 1951? It was in favor of it then?

Mr. BIRDSALL. Yes; and coordinated it with the Comptroller General, who concurred, and I understand they have reported and they favor the bill. The Comptroller General favors the bill. I think I have his report here dated February 6, 1952, addressed to the committee, which you have made a part of the record.

The purpose of the proposal is to so amend section 6 of the act of August 7, 1946, relating to the annual budget program of the Veterans' Canteen Service, by deletion of certain language thereof, as to provide for full conformity with the budgetary program provisions of the Government Corporation Control Act, as amended (59 Stat. 598; 31 U. S. C. 847–849). As a result of such amendment, the Veterans' Canteen Service would be able to maintain needed reserves and provide for planned future outlays, as hereafter explained. For the sake of clarity and ease of comparison, section 6 of the act of August 7, 1946, and an extract of section 102 of the Government Corporation Control Act (which specifies the form, content and manner of presentation of the budget) are reproduced at this point.

The reproduction is to clearly show that under our present act which established the Canteen Service, that is Public Law 636, Seventy-ninth Congress, approved August 7, 1946, that we would strike out the language that follows the term "Government Corporation Control Act,"

and we would add after "Act", as amended, because there was an amendment to that act on July 30, 1947.

The report of the Veterans' Administration shows in underlined form the language to be deleted from the present section 6.

The pertinent portion of section 102 of the Government Corporation Control Act which will be applicable if this proposal is enacted, reads as follows—and it is quoted in our report, followed by this comment:

It will be noted that the requirements of the two acts are similar, although not identical. Until this year Veterans' Canteen Service acted on the premise that the language which is now proposed for deletion was a short form restatement of the specifications as to the content of the annual budget program contained in the Government Corporation Control Act and that the procedures prescribed by the Bureau of the Budget implementing that act were to be followed. This is believed to be in accord with the original intent of Congress directing that the Veterans' Canteen Service should submit an annual budget program as is required in the case of wholly owned Government corporations. Consistent with this understanding and with sound business practices, the annual budget programs submitted by the Veterans' Canteen Service have included estimates of amounts required for the activation of canteens at certain new hospitals scheduled for completion and for replacement of equipment at existing hospitals. Such budgetary recognition of expenses to be borne by the revolving fund of the Veterans' Canteen Service has in each instance received the approval of the Bureau of the Budget. This normal business practice of maintaining certain necessary reserves has also been brought to the attention of the General Accounting Office each year at the time of its annual audit of the Veterans' Canteen Service.

In connection with its audit of the Veterans' Canteen Service for the fiscal year, 1950, the General Accounting Office for the first time questioned in its audit report the authority of the Veterans' Canteen Service to maintain reserves for the afore-mentioned requirements beyond the fiscal year next succeeding the last completed fiscal year. In a letter to the Assistant Administrator for Special Services dated March 8, 1951, the Director, Corporation Audits Division, General Accounting Office, stated as follows:

> The Comptroller General has stated that the Congress has specifically directed that any funds in excess of the estimated requirements for the ensuing fiscal year shall be covered into the Treasury as miscellaneous receipts. Any attempt or proposal to reserve funds for estimated requirements beyond that period would be a direct violation of the congressional mandate. While it may be that the course sought to be pursued is more desirable from an administrative standpoint, there is no present authority therefor. Accordingly, if the Veterans' Canteen Service desires to proceed on the basis indicated, it will be necessary to secure enabling legislation.

This interpretation of existing law was confirmed by the report transmitted to Congress by the Comptroller General on April 25, 1951 (H. Doc. 117, 82d Cong., p. 9).

In view of the position taken by the Comptroller General, enabling legislation is indicated in order that there may be no question of the authority of the Veterans' Canteen Service to continue the sound business practice of maintaining a cash reserve equivalent to the reserve for depreciation, or to retain capital needed for the activation of canteens in new hospitals which will not be completed in the ensuing fiscal year.

The point there being that the funds, while available, the authority to use them terminates at the end of the fiscal year, although the hospital does not open up until the following one, and the funds have been turned into miscellaneous receipts and we have to try to get the necessary funds.

The primary function of the——

Mr. SITTLER. Would you interpolate there at this point and give us by actual date an example of this procedure, showing how far ahead you can provide? Or would you rather do that at the end of your statement?

Mr. BIRDSALL. I think it would be very well to insert that right here. I think Mr. Bucknell can give you a good example of the application of that principle.

Mr. SITTLER. I take it from what you said, you are allowed to have funds 1 year in advance and warrant more than that; is that right?

Mr. BIRDSALL. We want the funds that are estimated and appropriated, authority for the use of them to continue beyond June 30 of the fiscal year, because sometimes, for example, those hospitals do not open up at the time we thought they would, and then we would have to come back because the money has been turned into miscellaneous receipts of the Treasury as surplus.

Mr. BUCKNELL. Using actual dates, for example, at the end of June 1952, which we are just approaching, all funds in the revolving fund in excess of the requirements for fiscal year 1953 would revert to the Treasury. Any capital requirements that we might foresee at this point that would be required in fiscal 1954 could not be retained, and the only way that we could have sufficient funds to meet those requirements would be through earnings in fiscal 1953.

Mr. SITTLER. Let's look at it this way: You have 155 canteens; is that right?

Mr. BUCKNELL. Yes.

Mr. SITTLER. And the profits from those contribute to a revolving fund for the Veterans' Canteen Service?

Mr. BUCKNELL. That is right.

Mr. SITTLER. Now then at the end of the year June 30 you will have a certain amount of money?

Mr. BUCKNELL. Right, in the revolving fund.

Mr. SITTLER. Yes; that is what you operate from; is it not?

Mr. BUCKNELL. Right.

Mr. SITTLER. And that is the only thing you operate from?

Mr. BUCKNELL. That is right.

Mr. SITTLER. Then you submit a budget?

Mr. BUCKNELL. Right.

Mr. SITTLER. Which is balanced off against this revolving fund and any excess of the revolving fund over the budget goes to the Treasury?

Mr. BUCKNELL. Any excess for requirements for the ensuing fiscal year, which would be fiscal 1953.

Mr. SITTLER. That you have budgeted during fiscal 1953?

Mr. BUCKNELL. That is right, and anything beyond those requirements goes into the Treasury.

Mr. SITTLER. Let's say you have in the fund—what might you have in the fund? What kind of figures are we dealing with here?

Mr. BUCKNELL. The balance as of March 31——

Mr. SITTLER. What are you in the habit of having, in round figures?

Mr. BUCKNELL. Well, the original revolving fund was $4,965,000.

Mr. SITTLER. Well, $5 million?

Mr. BUCKNELL. $5 million.

Mr. SITTLER. What about now? What was it in March?

Mr. BUCKNELL. We have repaid to the Treasury an amount——

Mr. BIRDSALL. $1,665,000.

Mr. BUCKNELL. Yes. The figure remaining of the original appropriation actually as of March 31 was $2,827,015.

Mr. SITTLER. And you have repaid $2,100,000-odd?

Mr. BUCKNELL. $2,137,000 hs been repaid.

Mr. JONES. How have you repaid that?

Mr. BUCKNELL. How?

Mr. JONES. Yes.

Mr. BUCKNELL. Actually it has been repaid out of earnings.

There is one factor that should be taken into consideration on that, however, and that is that during the first 3 years of operation the salaries and expenses of central office canteen personnel and field office canteen personnel were paid from appropriated funds of the Veterans' Administration. There was an amendment to the law on May 21, 1949, which required us after that date to assume those costs. So, as a result, during that early growing period our earnings were considerably in excess of what they were after we assumed those costs.

Mr. SITTLER. Is that after you paid off most of the 2 million?

Mr. BUCKNELL. We have been paying it off annually. In the current fiscal year we have repaid——

Mr. SITTLER. Let's get back to this—were you through, Mr. Chairman?

Mr. JONES. You go right ahead.

Mr. SITTLER. All right, sir. You have repaid this money, but what is the amount of the revolving fund that you have? Will it be about $5 million?

Mr. BUCKNELL. No, sir. The total net worth of the business, which in effect is the total revolving fund, as of March 31, 1952, was $7,312,044.43.

Mr. JONES. Repeat that, please.

Mr. BUCKNELL. $7,312,000 in round figures.

Mr. SITTLER. How much cash?

Mr. BUCKNELL. The cash is $4,543,766.

Mr. SITTLER. Now what was your budget last year?

Mr. BUCKNELL. When you say budget, you mean the budget for cash?

Mr. SITTLER. No. How much——

Mr. BUCKNELL. How much we are budgeted to make——

Mr. SITTLER. No.

Mr. BUCKNELL. I misunderstand you, I am afraid.

Mr. SITTLER. You will have available on the 30th of June assets in this corporation worth about $9,200,000.

Now, as I understand it, you present a budget each year which this $9 million is supposed to cover. If you want the excess over what it is going to cost you to run next year kept for yourselves rather than put into the Treasury, what is it going to cost next year, or what did it cost you to run last year, so that we can get some comparison?

Mr. BUCKNELL. I am not certain that I understand your question.

Mr. SITTLER. Do you say there is going to be an excess in this picture and the bill is for you to keep the excess? Is not that true?

Mr. BUCKNELL. Right.

Mr. SITTLER. It is the excess of what?

Mr. BUCKNELL. We projected to return for the current fiscal year $472,000. We have projected for return next year $100,000. However, that budget will come up for revision with the new budget.

Mr. SITTLER. This year you are going to return $472,000 to the Treasury?

Mr. BUCKNELL. To the Treasury from the revolving fund.

Mr. SITTLER. What does that represent? What is that excess? It is an excess of something over something; is it not?

Mr. BUCKNELL. It is excess of working-capital requirements and is not limited to the ensuing fiscal year, in other words, just our requirements for fiscal 1953.

Mr. JONES. Congressman, do you not believe it would be better for us to get a more perfect picture than I have gotten so far—I do not know whether you have or not—of these items, what part they expect to retain in the revolving fund and what part they want to project forward, before we dig down into the details? It seems to me we would have a clearer conception of it.

Mr. BUCKNELL. The design and the intent of the legislation is that the Canteen Service be treated the same as other Government corporations. We are not asking for a thing beyond the normal way that Federal corporations handle their budgeting process and their retention of capital.

Mr. SITTLER. Mr. Chairman, I will go along with you very readily on hearing the whole thing.

Mr. JONES. I think we might have Mr. Birdsall complete his statement; then we will have Mr. Bucknell, and I think we will get a pretty good grasp of it then.

Mr. SITTLER. I agree.

Mr. JONES. Supposing you proceed, Mr. Birdsall.

Mr. BIRDSALL. Yes, sir.

The primary function of the Veterans' Canteen Service is that of making available to veterans of the Armed Forces of the United States who are hospitalized or domiciled in hospitals and homes of the Veterans' Administration, at reasonable prices, articles of merchandise and services essential to their comfort and well-being. As this mission must receive first consideration, and since the Veterans' Canteen Service must conduct its operations substantially on a self-sustaining basis, it is not possible to assure that current revenues will be sufficient to provide adequate working capital for current needs, much less that they will be sufficient to provide for the replacement of equipment and activation of new canteens during this period of expansion of Veterans' Administration facilities, unless necessary reserves can be maintained.

Then follows in our report the figures that stood as of October 1951. I would prefer to give you a more current statement on those figures, and this is taken primarily from the—in fact, it is essentially what we have taken from the President's budget message.

The Veterans' Canteen Service furnishes merchandise and services for the comfort and well-being of veterans in hospitals and homes of

the Veterans' Administration. The Congress has appropriated a total of $4,965,000 to be administered as a revolving fund for the operation of the Veterans' Canteen Service. Funds in excess of the needs of the service totaling $1,665,000 have been returned to the Treasury of the United States, thereby reducing the amount of the funds appropriated to $3,300,000. It is contemplated that additional funds in the amount of $472,985 will be returned to the Treasury during the fiscal year 1952, and funds in the amount of $100,000 during the fiscal year 1953.

A figure given you a moment ago by Mr. Bucknell on the returns to the Treasury included, I believe, the amount for 1952 which I mentioned, the $472,985, which I understand has already been turned in.

Finally, it would appear that inasmuch as the budget of the Veterans' Canteen Service must be prepared and submitted to the Bureau of the Budget, as provided for wholly owned Government corporations by the Government Corporation Control Act, and since the accounts of the service are audited annually by the General Accounting Office, there is more than ample assurance of effective control over the fiscal operations of the Veterans' Canteen Service, including the control over return of funds to the Treasury.

It is believed that the proposed amendment would permit the Veterans' Canteen Service the flexibility of operations which was intended by the Congress when it originally prescribed the financial operations of the Veterans' Canteen Service in that it would permit the submission of a budget program identical with those prescribed for wholly owned Government corporations. It would allow no greater flexibility than is permitted other Federal revenue-producing activities subject to the Government Corporation Control Act.

Enactment of the proposed legislation would not result in additional cost to the Government.

Advice has been received from the Bureau of the Budget that it has no objection to the presentation of the draft bill to the Congress for its consideration.

That is our report. I assume you may want to question further on the actual operation of the proposed amendment.

Mr. JONES. Mr. Birdsall, how are these funds obtained?

Mr. BIRDSALL. From the sale of merchandise to patients in hospitals and homes.

Mr. JONES. And profit from that; is that right?

Mr. BIRDSALL. A certain amount of profit. As I understand, they try to keep that down to a minimum, considering the necessity and requirements.

Mr. JONES. Of course, this is new to me, but you do not get then appropriations from the budget; do you?

Mr. BUCKNELL. No, sir; there was an original appropriation totaling $4,965,000 and——

Mr. JONES. And you have been working on that since?

Mr. BUCKNELL. Yes, sir.

Mr. SITTLER. And reducing it?

Mr. JONES. Yes; that is right.

Congressman Sittler, you follow out what you had in mind, and I will ask some questions a little bit later.

Mr. SITTLER. All right, Mr. Chairman.

No. 1, these canteens, of course, pay no rent or anything like that in the hospital; they share no portion of the administrative costs other than the salaries of the people who work in the canteen?

Mr. BUCKNELL. We pay utilities, heat, light, power, telephone. We pay for printing and binding costs. We pay for office supplies. We do not pay an increment for rent, which was your specific question.

Mr. SITTLER. You do not pay for the electricity for ice boxes in the canteens; do you?

Mr. BUCKNELL. Yes, sir.

Mr. SITTLER. You have separate meters?

Mr. BUCKNELL. No, sir. An annual fee, determined at central-office level for all hospitals in the country, is paid. We are paying approximately $115,000 a year to the Veterans' Administration for utilities. We are paying $25,000 a year for printing and binding. We are paying about $5,000 a year for office supplies. And we are paying $10,000 a year for telephone, TWX service.

Mr. SITTLER. And, of course, since the first 3 years you maintain your own headquarters staff out of the profits of the canteen?

Mr. BUCKNELL. All personnel are now paid out of the revolving fund.

Mr. SITTLER. That is a businesslike approach to the thing, I am sure.

Now, to get back to this excess figure, how did you determine the $472,985 that was to be paid in this year?

Mr. BUCKNELL. I would have to refer to the details of the budget submission on that.

Mr. SITTLER. When you get down to the bottom you subtract one figure from another; do you not? Which is the figure you subtract from the figure above to get the $472,000?

Mr. BUCKNELL. The approach is to work out in detail the actual capital that will be required for the purpose of inventory, equipment, for the purpose of cash working balances, petty cash funds, change funds, funds in banks to meet accounts payable.

Mr. SITTLER. You budget your needs for the coming fiscal year?

Mr. BUCKNELL. That is correct.

Mr. SITTLER. All right.

Mr. BUCKNELL. And then we budget the estimated cash position for that particular year.

Mr. SITTLER. That is your budget. Now, what do you subtract that from?

Mr. BUCKNELL. Apparently I misunderstand.

Mr. SITTLER. Is that difficult?

Mr. BIRDSALL. He wants to know on what basis we make that refund.

I believe Mr. Staley has something on that.

Mr. STALEY. I think that I can shed a little light on it.

One thing we may not have made clear, which I think we tried to make clear in the written report, was that, acting on the understanding that we were to submit an annual budget in accordance with the Corporation Control Act, we have actually been budgeting for needs beyond the ensuing fiscal year, and up until last year that had not been questioned by the Bureau of the Budget nor the General Accounting Office.

Mr. SITTLER. Yes.

Mr. STALEY. So that actually we have not limited our budget estimate to our requirements for the ensuing fiscal year because, as we have indicated, hospitals might be started in the current fiscal year and would not be scheduled for completion until after the ensuing fiscal year; so that, estimating for requirements 3 or 4 years in advance as we saw the need for replacing equipment, most of which was second-hand equipment when we took over the operation, we have actually projected our operation all these years for three or four fiscal years in advance, believing that was all right. The Bureau of the Budget had always approved and the General Accounting Office auditors never questioned it. They called our attention, however, last year, to the technicality in the law, our law, which differs from the Government Corporation Control Act.

Now, what we are asking here is that we be permitted, as other Federal revenue-producing activities, to submit a budget estimate which will show the actual accomplishments, you might say, for the last complete year, what we are doing in the current year, and what we foresee for the reasonably foreseeable future.

We realize that the Bureau of the Budget, first of all, has an opportunity to go over that budget and tell us whether or not we have been unreasonable in projecting too far in the future. General Accounting Office also makes its annual audit of our operations, and they, too, of course, being an arm of the legislative branch of the Government, can recommend to the Congress that it require a greater or a lesser return to the Treasury.

What we are trying to do now is to get legal authority technically for the very thing that we have been doing all along.

Maybe I am mistaken. Maybe you were not confused as to that extent.

Mr. SITTLER. I understand that part of it very well, The questions I was asking were right along that line.

Mr. STALEY. You were speaking of what we would need for the ensuing fiscal year. The point I was attempting to make was that we have not restricted ourselves to the next fiscal year.

Mr. JONES. May I interrupt?

Mr. SITTLER. Surely.

Mr. JONES. Have you a draft of the budget you will ask for in 1953?

Mr. STALEY. I would have to ask Mr. Bucknell if he has that budget here with him.

Mr. SITTLER. I asked for the budget for 1953. Do you have that?

Mr. JONES. That is right.

Mr. BUCKNELL. Yes, sir; I have the budget for 1953.

Mr. SITTLER. How much are they? It is just a figure; is it not?

Mr. BUCKNELL. That is the point. The entire budget, for example, is broken down by the sales program. We are estimating sales of $23,389,000 for 1953, total expenses of $22,992,000, coming up with net income of $397,000.

I am afraid that is not getting to the specific question you are asking.

Mr. SITTLER. That is what we want.

Mr. BUCKNELL. Is that what you want?

Mr. JONES. Yes.

Mr. SITTLER. That is right.

Mr. BUCKNELL. I am sorry.

Mr. SITTLER. I do not know how you present a budget but indicate sales. It seems to me a budget is a list of expenditures you expect to make in any given business; is it not?

Mr. STALEY. Yes, sir. We also have to estimate the income since it is a revolving fund.

Mr. SITTLER. All well and good. But the budget of what you expect to spend is to be taken out of your income. These capital expenditures that you want to make over the next 3 or 4 years are going to be paid for out of current income; are they not?

Mr. BUCKNELL. They will be paid for out of the revolving fund. Now the question is whether——

Mr. SITTLER. Well, you replenish the revolving fund from income.

Mr. BUCKNELL. That is right, but if current income will be sufficient to meet immediate requirements for capital expenditures is questionable.

Mr. JONES. Congressman, the income may not be sufficient to meet the amount they need.

Mr. BUCKNELL. That is the whole point there.

Mr. SITTLER. I want you to thoroughly understand I am not opposing this legislation. I am only trying to figure out what in the world we are doing. I also appreciate your trying to get for the Veterans' Canteen Service the same privileges that other Government corporations now have. But I also want to know what that is, and I cannot understand why, if you are going to contribute $472,000 back into the United States Treasury to offset your revolving fund, you must have got that by subtracting one figure from another, and I cannot find out what those two figures are.

Mr. STALEY. Under the Corporation Control Act, of course, the budget submission is different from a budget submission under appropriated accounts. It is a business type budget which projects estimated earnings as well as your estimated requirements for expenditures.

Now it is my understanding that the Canteen Service does not on the basis of their estimated earnings and their estimated expenditures feel that the earnings will be sufficient to take care of the expenditures. Therefore, it will be necessary for them, if their predictions were correct, to come back to the Congress perhaps and ask for additional appropriation, which we have authority to do under the initial act.

However, we were, as I recall, advised by the committee when Public Law 636 was being considered that they hoped we would put this thing on a sound enough basis that it would not be necessary to come back and ask for additional appropriations. We are rather proud of the fact that it has not been necessary, even though we predicted it would be a losing operation for the first 2 or 3 years, and actually the operation made money even though we kept the prices at reasonable cost. I am not a budget man myself, but the idea is that——

Mr. SITTLER. I would like to say that I am not either, but I just know in order to get at the amount you are going to pay you have to subtract from an amount you have, that is, you have to subtract something from the amount you have.

Mr. STALEY. I do not want to appear presumptous in attempting to say things here that you probably know better than I. I want to make clear the business-type budget submitted annually is not a

regular appropriation budget. It is a business budget and must necessarily include an estimate of earnings.

Mr. SITTLER. I understand that.

Mr. STALEY. They can do it better now after some 5½ years of operation based on their experience.

Mr. BIRDSALL. May I speak off the record, Congressman?

Mr. SITTLER. Surely.

(Discussion was had off the record.)

Mr. JONES. I do not think we have all the information we need. Are you through, Mr. Birdsall?

Mr. BIRDSALL. I would like to have General Kerr speak.

Mr. JONES. All right, General.

Mr. KERR. We are interested in replenishment of obsolete equipment in the old hospitals, and we are also interested in the development of the new hospitals in equipment and furniture and fixtures and inventory. Let us say, we are in the year 1952.

Mr. SITTLER. All right.

Mr. KERR. As we projected our future, our needs for 1954 may exceed our needs for 1952. But, unfortunately, as the law stands at the moment, we could only retain sufficient to cover the needs of 1953; although we had the funds, we would not be able to retain them. We would have to return them to the Treasury.

Mr. SITTLER. Yes.

Mr. KERR. We might have a lean year in 1953 so that we might not be able to accumulate sufficient money to cover the needs of 1954. This is an attempt to look toward the future and make sure that we have sufficient funds to do the job that is required to keep apace not only with the building program but with the betterment program which constantly must go on in this retail chain operation.

In other words, we do not want to come back for an appropriation because we know that we can make sufficient money to carry on our future business without an appeal to the Congress for support.

I have tried to express in my own terms your original question: "How much money do we want to retain?" And I would say the answer to that is an amount equal to our estimate of requirements for the immediate future——

Mr. JONES. Repeat that please.

Mr. KERR. Is an amount equal to our estimate of requirements for the immediate future equaling reserve for depreciation and for requirements of new canteens, for fixtures and inventory.

Mr. SITTLER. Start where you said "for immediate future."

Mr. JONES. Yes.

Mr. KERR. Perhaps that immediate future needs interpretation. That is the foreseeable future, I would rather say, than the immediate. In other words, we know that the program of the Department of Medicine and Surgery contemplates bringing in a certain number of hospitals this year, a certain number next year, until the completion of this hospital program. We must be prepared to put in canteens to keep pace with the development of the building program. When the hospitals have all been built and have all been set up with canteens, then our problem is simply that we need to keep enough funds to keep abreast of our betterment program.

Mr. JONES. Repeat that please. Retain an amount equal to what?

Mr. KERR. An amount equal to our estimates of requirements for our future developmental program equaling the reserve for depreciation and the requirements for new canteens for furniture, fixtures, and inventory.

Mr. JONES. You are trying to project the expenses; is that right?

Mr. KERR. Yes. That is projected paralleling the Veterans' Administration building program for hospitals.

Mr. SITTLER. You want to improve your present facilities, too?

Mr. KERR. Yes, sir. And that would come, in general, out of the reserve for depreciation.

Mr. JONES. Proceed, General.

Mr. KERR. I think that is pretty much our situation, sir.

Mr. JONES. General, what I asked this other gentleman a minute or two ago—I would like to get, and I believe Mr. Sittler would, too, the picture of your budget, what you are asking for this year—projected activities, the amount you are going to pay in the revolving fund and so forth. If we had that picture, I know I would get a better understanding of the problem. Right now we are talking about generalities and general principles, but I have not quite got the picture of just how the budget would look. That is what I am getting at.

Mr. KERR. We would be glad to submit the budget information for the record if it is desired by the chairman, sir.

Mr. SITTLER. Well, do you have it there?

Mr. BUCKNELL. I have it, sir.

Mr. SITTLER. Let's take a look at what you have.

Were these other men to testify or to support your statement?

Mr. BIRDSALL. Just to support our statement.

Mr. JONES. Can you direct them as to what we desire to know?

Mr. BIRDSALL. I have a definite impression—I may be wrong, but my impression is you want more really than what is revealed in the pure budget statement. In other words, do you not want the support for the return of the 100,000 to repay the appropriations to the fund? In other words, how do they arrive at that 100,000?

Mr. JONES. Have them explain it if they can, briefly.

Mr. BIRDSALL. As I understood, you were looking for an analysis that supports their estimates.

Mr. JONES. That is right.

Mr. BIRDSALL. With reference to the amount that they can refund, that was appropriated to the fund and the portion of it that could be returned.

Mr. JONES. That is right, and the amount projected for future activities.

Mr. KERR. Mr. Chairman, may I explain one thing? When the General Accounting Office goes over our figures for the year it determines that a certain amount of capital, a certain amount of money, is excess to our needs, and that amount of money we are required to return.

Now the amount will vary from year to year, depending upon business conditions, depending upon our program for future development—in other words, our requirements. So we would not get a figure which would be constant every year.

Mr. SITTLER. Certainly not.

Mr. KERR. It may be 100,000 this year, it may be 400,000 next year, and it is difficult for us to forecast what the years beyond that

would be. Our best estimate is in the nature of this budget forecast for the coming year.

Mr. JONES. That is right.

Mr. KERR. Beyond that it is very difficult to project ourselves.

Now we can show you how much the General Accounting Office has indicated has been excess to our needs each year we have gone along.

Mr. SITTLER. If I may interrupt, is not that in relation to your budget? Do you not submit a budget against which they check and determine whether it is excess or not?

Mr. KERR. General Accounting Office checks against the budget, which is our forecast. The General Accounting Office also checks our actual operations, determines the status of our service, as reflected in financial statements.

Mr. SITTLER. Mr. Chairman, if I may attempt to summarize this, I would like to have you check, Mr. Birdsall and General Kerr, and see whether we have this picture right.

Here is a Government corporation operating 155 canteens in 155 veterans' hospitals at a small profit. From the year's operation there is a given amount of profit which is supposed to provide the current operating expenditures and capital outlay for the following year, and that current outlay and capital expenditure for the following year is checked by the General Accounting Office, and if found to be excessive, the overage is supposed to go into the Treasury. Is that correct?

Mr. KERR. With one exception, sir: That operating profit, plus the amount already in the revolving fund, the balance in the revolving fund, provide funds to meet expenditures and capital outlay for the following year. That operating profit builds up the revolving fund even greater, you see.

Mr. SITTLER. Yes, I recognize that, but the revolving fund does not increase or decrease except in response to the function of the profit.

Mr. KERR. That is right. It increases as the profit comes into the picture.

Mr. SITTLER. That is right. Now on June 30 of any year this organization has a balance sheet on which there is a profit, and it also has a projected plan of expenditures through the coming year for which the budget allocates a certain amount of money?

Mr. KERR. No, sir; the budget does not allocate anything; it all comes from the Canteen Service.

Mr. SITTLER. I beg your pardon. But somebody checks the amount of money you are going to be able to take out of the revolving fund to operate during the coming year, and you tell me it is the General Accounting Office, is it not, or the Bureau of the Budget which?

Mr. KERR. The Bureau of the Budget makes the first estimate. The General Accounting Office makes an estimate in consideration of our financial condition at the end of the year. It says, "You have so much money now, and this is what you plan to do. Therefore, we think this much is excess to your needs for that particular program, and therefore we are going to report that you will return this amount of money to the Treasury."

Mr. SITTLER. Who decides how much you will pay back into the revolving fund?

Mr. BUCKNELL. The Bureau of the Budget.

Mr. JONES. It seems to me, Mr. Sittler, we are trying to pass a law to give more elasticity to this program, and it will take a special act to do that.

Mr. SITTLER. Mr. Chairman, maybe it will simplify matters if we can get an answer to this question.

How do you decide that you are going to pay $472,000 back against this nearly $5,000,000 that was put in the original revolving fund? How do you decide you are going to pay $472,000 back this year and only $100,000 in 1953? Whose idea is that and how do you arrive at those figures?

Mr. KERR. We arrive at that by an estimate of what amount of money we can generate through our business during the coming year and what amount of money we will require to bring in new canteens, stock them and equip them with furniture and fixtures, and to pay for the betterment of existing canteens.

Mr. SITTLER. You mean your capital outlay next year is going to be a lot greater than it was this year?

Mr. KERR. Not necessarily; no, sir.

Mr. SITTLER. Then where is the $372,000 difference?

Mr. KERR. Oh, I misunderstood your question. It may be because our capital outlay will be greater, or it may be because our estimate of business conditions will not allow us to believe we can make as much money as that.

I would rather ask Mr. Bucknell to explain specifically on that, but that would be the general principle under which that operation would arise.

Mr. SITTLER. At that point, I would like to ask this one question: What makes a lean year in the business in veterans' hospitals? It seems to me if there is any area where there would be constant purchasing power it would be in a Veterans' Administration hospital.

Mr. KERR. Let Mr. Bucknell, if you will, please, answer.

Mr. SITTLER. Surely.

Mr. BUCKNELL. I might mention that since we have been in operation in 1946, we have gradually and steadily been on a incline.

Mr. SITTLER. What does that mean—up or down?

Mr. BUCKNELL. Up. Incline, sir.

Mr. SITTLER. Yes.

Mr. BUCKNELL. As far as volume is concerned, and likewise from an over-all operating angle.

Now the specific question—what could make for a lean year? The The difficulty in obtaining employees, salaries charged to the operation can have a very definite bearing on the operating results.

We experience this sort of thing. We operate the feeding operations in hospitals, I mean, the cafeterias, snack bars, and that sort of thing. And any time a reduction in force is announced in the hospital it has a very definite effect on the amount of business we are doing.

We have often unusual demands put on us from the standpoint of service, hours of operation. We have some hospitals that are opening as early as 6 in the morning and not closing until 9:30 in the evening. Obviously you must operate two shifts to do that.

We are providing ward cart service in practically all of our hospitals. I mean by that we are actually taking to the patient at his bedside

his requirements—candy, cigarettes and requirements of that nature. That becomes an expensive proposition.

There is very definitely a growing tendency in the neuropsychiatric hospitals for two things: First, to bring the patient into the canteen, and more and more that is being done. As a result, the canteen is locked to everyone except a particular closed ward that is brought down there. It may sometimes take 10 or 15 minutes to consummate the sale of a candy bar. On the other hand, the doctors feel it is a very definite therapeutic value to the patients.

Mr. SITTLER. Surely.

Mr. BUCKNELL. It is costly to us and can have a very definite bearing on our financial results, but if it is rendering a service to the patient, I think that is the business we are in.

Mr. JONES. Mr. Bucknell, see if I understand this. The total amount of the revolving fund now is $4,965,000?

Mr. BUCKNELL. No.

Mr. JONES. How much is it now?

Mr. BUCKNELL. The original amount appropriated was $4,965,000.

Mr. JONES. Yes. That is the original sum that I had here.

Mr. BUCKNELL. As a result of repayments against that amount, it is now $2,827,000.

However, I am wondering if we are confusing one point. This $2,827,000 is not the revolving fund, that is merely the balance between the original appropriation and what we have repaid. The revolving fund, you see, is much greater than that.

Mr. SITTLER. Yes. That is your 9 million; is it not?

Mr. BUCKNELL. Pardon me?

Mr. SITTLER. That is 9 million?

Mr. BUCKNELL. The entire worth of the business today is $7,312,000.

Mr. SITTLER. Of which four million is cash?

Mr. JONES. What is the net worth?

Mr. BUCKNELL. The net worth as of March 31 was four million—I am sorry.

Mr. SITTLER. That is cash.

Mr. BUCKNELL. $7,312,000.

Mr. SITTLER. Your volume was $23 million, is that right?

Mr. BUCKNELL. Last year a shade over 21 million. It will be about 22 million this year.

Mr. SITTLER. On that volume of sales you expect to make $300,000. Is that what you say?

Mr. BUCKNELL. We are budgeted this year to make $370,000.

Mr. SITTLER. On 22 million of sales?

Mr. BUCKNELL. Yes, sir.

Mr. SITTLER. Now what do you expect to make next year and on how many sales?

Mr. BUCKNELL. In 1953?

Mr. SITTLER. Yes.

Mr. BUCKNELL. Actually we are in the process of budgeting for that right at the moment. I will judge that we will come up close to $400,000.

Mr. SITTLER. Profit?

Mr. BUCKNELL. Yes.

Mr. SITTLER. On about 23 or 25 million?

Mr. BUCKNELL. On about 23 million, or 22½ million.

Mr. SITTLER. Out of this $370,000 you are going to pay into the revolving fund more money than you made this year, that is, you are going to pay back to the Treasury more money than you made by $100,000; is that right?

Mr. BUCKNELL. We are going to pay back to the Treasury more than we are budgeted to make. For the year we may come out above $370,000, but we are running more than we are budgeted to make, yes, sir.

Mr. SITTLER. And that is something that has already been done, as I understand it?

Mr. BUCKNELL. Yes, sir.

Mr. SITTLER. If we pass this law, are you going to ask for it back?

Mr. BUCKNELL. No, sir.

Mr. SITTLER. All right. Now then you are going to sell $23 million worth of merchandise next year and make $400,000. What capital outlay do you expect to make next year in improvement expenditures and so on?

Mr. BUCKNELL. The present plan calls for the activation of 14 new hospitals.

Mr. SITTLER. That is 169 hospitals we will have at the end of next year?

Mr. BUCKNELL. I think that is the figure.

Mr. SITTLER. Fourteen plus 155.

Mr. BUCKNELL. Well, there are a few that are to be closed. I think the figure is 164. I would have to check that.

Mr. SITTLER. That is all right. We will say 164.

Mr. BUCKNELL. There are some to be closed.

Mr. SITTLER. All right.

Mr. BUCKNELL. As a result of that we will need capital for investment in equipment of approximately $260,000.

Mr. SITTLER. All right.

Mr. BUCKNELL. We will need investment for the purpose of merchandise inventory of somewhere in the vicinity of $200,000. In addition to that, in our betterment and improvement program we estimate a cash requirement of apprxoimately $300,000—all of these during fiscal 1953, making a total of those three items of $760,000.

Mr. SITTLER. Against $400,000 profit?

Mr. BUCKNELL. Against $400,000 worth of profit, which, unless we could generate more profit and we had to return everything to "Miscellaneous receipts" now, it would necessitate coming in for an appropriation.

Mr. SITTLER. Why? You got $4 million worth of cash. Why do you have to come to the Congress when you got $4 million worth of cash in a $9 million fund and are only short $360,000?

Mr. BUCKNELL. I mean, it would depend upon our particular cash position at that time. But assuming—and I was assuming—that the $4 million cash is in use in the business—to start with, we have got petty cash funds and change funds. We have got a certain cash reserve on deposit in the Treasury.

Mr. SITTLER. Yes.

Mr. BUCKNELL. We have cash in flow.

Mr. SITTLER. I understand all that, but $4 million in cash among 155 small, really, stores is a lot of reserve, it seems to me, and would

hardly call for any need to come to the House for appropriations on that amount.

Mr. BUCKNELL. In this particular case we would not have to because we have been retaining cash to provide for future years requirements, which is the whole point at issue.

Mr. SITTLER. Is the $4 million accumulated under this plan that the accounting department now wants to eliminate? How did you get the 4 million in cash you now have?

Mr. BUCKNELL. How did we get it?

Mr. SITTLER. Yes. Is that an accumulation of the type you want to continue to make?

Mr. BUCKNELL. It is an accumulation—first of all, how did we get it? It is the result of, first of all, the original appropriation that perhaps has not been put in use and accrued earnings. That is the source of that amount of money.

Mr. SITTLER. Yes.

Mr. BUCKNELL. Now it has not been repaid because we have not been returning requirements beyond the ensuing fiscal year. In other words, we have been estimating requirements for 3 and 4 years hence and retaining capital for that purpose for activation of new hospitals.

Mr. SITTLER. How much do you expect to spend next year on these things? That is this $260,000, $200,000 and $300,000, a total of $760,000 for fiscal 1953 beginning July 1, 1952?

Mr. BUCKNELL. That was the estimate as of last fall.

Mr. SITTLER. What do you estimate you are going to need in fiscal 1954?

Mr. BUCKNELL. We have not figured that yet, and I do not have the detailed breakdown.

Mr. SITTLER. Do you have any idea what it would be for 1955?

Mr. BUCKNELL. We are faced with this——

Mr. SITTLER. That you want more money for it?

Mr. BUCKNELL. Yes. For one reason, we are faced with this par tivular problem: In 1946 and 1947 when we first got started we obtained a lot of our equipment from surplus sources, Army exchange service, navy, et cetera.

Mr. SITTLER. Yes.

Mr. BUCKNELL. A large portion of that equipment is going to have to be replaced in the near future. We are in the process of replacing it now. We will need cash for the purpose of purchasing that equipment for replacement purposes. Of course, this $302,000 in 1953 is our estimate for that year for that purpose.

Mr. JONES. Mr. Bucknell, I come back just to the same point, that I am looking for a picture of the thing like you would look for a statement of a corporate business.

Mr. BUCKNELL. That I can provide you.

Mr. JONES. Which I have not yet got.

My suggestion is that if we just had a breakdown of this showing how much is going to be returned to the Treasury and an explanation of why you are going to return it, and then a breakdown on how much will be retained for projected programs and why those items should be retained, and then what would be the balance in the revolving fund, it would shorten this hearing fivefold.

I think that is what we need and have not quite gotten yet.

Could there be a statement to the committee on that?

Mr. BUCKNELL. I can work up a statement of that type. I think I understand. Projected how many years in advance do you want, sir?

Mr. JONES. What you are contemplating doing now, what you expect to do if you get the law passed.

Mr. SITTLER. You want the money. What do you want to do with it?

Mr. BUCKNELL. We are not asking for money.

Mr. SITTLER. You sure are asking for money.

Mr. JONES. We are trying to give you elasticity in the law, and we want to know why we are doing it and to what extent we are doing it and what it means.

Do any of you gentlemen have anything else to present on the basic nature of the legislation?

Mr. BIRDSALL. No, sir.

Mr. JONES. Then the committee will recess and your statement will be placed in the record.

(The statement referred to above is as follows:)

H. R. 5647—EXPLANATORY STATEMENT

1. In preparing budget estimates, the Veterans' Canteen Service has followed the instructions issued by the Bureau of the Budget covering a business type financial budget. The most recent budget submission, prepared September 1951, covers a budget cycle of 3 years which reflects actual results for fiscal year 1951, revised estimates for fiscal year 1952, and estimates for fiscal year 1953.

2. The basic business type financial statements submitted under the budget program consists of the following statements for the budget cycle, copies of which are attached hereto:

A. Statement of sources and application of funds.

B. Statement of income, expenses, and retained earnings.

C. Statement of financial condition.

3. A statement showing the details of Veterans' Canteen Service capital requirements approved by the Bureau of the Budget for fiscal years ending June 30, 1951, 1952, and 1953 is also attached. The amounts shown as comprising net worth at the end of fiscal year 1951 on this statement are the actual audited figures for the year. The total capital available in the amount of $7,123,315 is the total of the revolving fund as of June 30, 1951 which represents the net worth of the business.

4. In determining capital requirements for fiscal year 1952, the amount of $4,134,995 cash is required as indicated below:

(a) $2,958,576 for the following purposes:

Change and petty-cash funds in individual canteens	898, 400
Average balances required in maintaining accounts with field station depositaries	1, 148, 000
Amounts on deposit in field office operating accounts with commercial depositaries representing the amount required to meet current liabilities reflected in statement	1, 712, 176
Total	2, 958, 576

(*b*) $1,176,419 on deposit with the Treasurer of the United States for the following purposes:

Cash reserve to provide a source for additional cash requirements of field offices	$300,000
Under the revolving fund method of financing, it is estimated that at least the amount of reserve for depreciation account should be set aside in order to insure that money will be available for the purchase of equipment as replacement is required at the end of its serviceable life in the amount of	687,235
Estimated excess capital at end of fiscal year 1952 required for operation of the Service during fiscal year 1953 in order to prevent a deficit in capital	189,184
Total	1,176,419

5. In estimating the details of the other asset and liability account of the Service at June 30, 1952, consideration was given to the proposed activation of 19 additional canteens and replacement of old and obsolete equipment in a number of other canteens. This program requires provision for increased balances in the various accounts, particularly inventories, equipment, and accounts payable.

6. The net investment of the United States Government for fiscal year 1952 (assets less liabilities) amounts to $7,020,208. This total includes the estimated excess capital amount of $189,184 on deposit with the Treasury which will be required during fiscal year 1953 in order to prevent a deficit in cash due to activation of additional canteens. It was estimated that the profit for fiscal year 1952 will be $369,878. This amount, added to the capital available at end of fiscal year 1951 of $7,123,315, less the projected return to the Treasury of $472,985 during fiscal year 1952, results in the net worth at the end of fiscal year 1952 of $7,020,208.

7. The basic principles outlined in paragraph 5 above were followed in estimating the budget requirements for fiscal year 1953, with the exception that provision was made for the activation of 14 additional canteens. The net investment of the United States Government for fiscal year 1953 (assets less liabilities) as detailed in the attached statement amounts to $7,366,785. It is estimated that the profit for fiscal year 1953 will be $446,577. This amount, added to the capital available at end of fiscal year 1952 of $7,020,208, less the projected return to the Treasury of $100,000 during fiscal year 1953, results in the net worth at the end of fiscal year 1953 of $7,366,785. Providing the actual earnings for 1952 and 1953 exceed the above estimates, it may be possible to return more than $100,000 to the Treasury in fiscal year 1953.

8. In September 1951, when the budget submission was prepared, strict adherence to the interpretation of the Comptroller General of the existing law would have precluded the Veterans Canteen Service from retaining capital for the activation of the 14 canteens in 1953 and for the betterment program in 1953, as well as necessary cash for future replacement of existing equipment. It should be noted that cash reserves are maintained on deposit with the Treasurer of the United States and not in commercial banks and, therefore, is available for Federal use.

Capital required and available, fiscal years ending June 30, 1951, 1952, and 1953

	Net worth end of fiscal year 1951		Estimated net worth end of fiscal year 1952		Excess capital fiscal year 1952	Estimated net worth end of fiscal year 1953		Excess capital fiscal year 1953
Cash:								
On hand, in banks, and in transit	$2,051,586		$2,958,576			$3,064,439		
On deposit with U. S. Treasury	2,612,113		[1] 987,235			[2] 1,181,441		
Total		$4,663,699		$3,945,811			$4,245,880	
Accounts receivable		244,451		246,000			250,000	
Inventories		2,160,152		2,269,735			2,302,583	
Equipment	2,107,204		2,705,889			3,155,692		
Less: portion charges off as depreciation	447,315		687,235			966,051		
Net equipment		1,659,889		2,018,654			2,189,641	
Other assets		55,924		63,000			68,500	
Total assets		8,784,115		8,543,200			9,056,604	
Accounts payable	749,837		787,816			799,113		
Accrued other liabilities	910,963		924,360			927,726		
Total liabilities		1,660,800		1,712,176			1,726,839	
Net investment of U. S. Government end of fiscal year 1951		7,123,315		6,831,024	$292,291		7,329,765	$498,741
Estimated profits, fiscal year 1952 and fiscal year 1953					369,878			446,577
Total					662,169			52,164
Projected for return to Treasury, fiscal year 1952					472,985			
Estimated excess capital end of fiscal year 1952				[1] 189,184	189,184			189,184
Net investment of U. S. Government end of fiscal year 1952				7,020,208				137,020
Projected for return to Treasury, fiscal year 1953								100,000
Estimated excess capital end of fiscal year 1953							[2] 37,020	37,020
Net investment of U. S. Government end of fiscal year 1953							7,366,785	

[1] Estimated excess capital indicated is required during fiscal year 1953 in order to prevent a deficit in cash due to activation of additional canteens. The excess of $189,184 is included in the estimated amount on deposit with the U. S. Treasury at the end of fiscal year 1952 of $1,176,419 ($987,235 plus $189,184).

[2] The excess of $37,020 is included in the estimated amount on deposit with the U. S. Treasury at the end of fiscal year 1953 of $1,218,461 ($1,181,441 plus $37,020).

Operation of canteens, revolving fund

A. STATEMENT OF SOURCES AND APPLICATION OF FUNDS FOR FISCAL YEARS ENDING JUNE 30, 1951, 1952, AND 1953

	1951 actual		1952 estimate		1953 estimate	
FUNDS APPLIED TO OPERATIONS						
Sales program:						
Acquisition of assets:						
Equipment	$684,951		$672,724		$560,224	
Other assets	25,624		7,076		5,500	
Total acquisition of assets		$710,575		$679,800		$565,724
Expenses:						
Purchases	15,642,169		15,865,896		16,734,209	
Direct operating expenses	4,191,968		4,546,117		4,816,716	
Indirect operating expense	974,705		1,127,585		1,128,979	
Total expenses		20,808,842		21,539,598		22,679,904
Total amounts applied to program operations		21,519,417		22,219,398		23,245,628
Increase in selected working capital items		0		857,163		95,200
Total funds applied to operations		21,519,417		23,076,561		23,340,828
FUNDS APPLIED TO FINANCING						
Return of funds to appropriation	200,000					
Payment into miscellaneous receipts			472,985		100,000	
Increase in Treasury cash	0		0		42,042	
Total funds applied to financing		200,000		472,985		142,042
Total funds applied		21,719,417		23,549,546		23,482,870
FUNDS PROVIDED BY OPERATIONS						
Sales program: Income from sales		21,441,758		22,032,555		23,389,219
Other receipts:						
Proceeds of sale of fixed assets	26,014		27,619		36,616	
Miscellaneous income	60,678		53,678		57,035	
Supplies contributed from other appropriations	2,594					
Adjustment of prior year expenses	1,187					
Total other receipts		90,473		81,297		93,651
Decrease in selected working capital items		11,386		0		0
Total funds provided by operation		21,543,617		22,113,852		23,482,870

Operation of canteens, revolving fund—Continued

A. STATEMENT OF SOURCES AND APPLICATION OF FUNDS FOR FISCAL YEARS ENDING JUNE 30, 1951, 1952, AND 1953—Continued

	1951 actual	1952 estimate	1953 estimate
FUNDS PROVIDED BY FINANCING:			
Decrease in Treasury cash	$175,800	$1,435,694	0
Total funds provided	21,719,417	24,549,546	$23,482,870
EFFECT ON BUDGETARY EXPENDITURES			
Total funds applied to operations	21,519,417	23,076,561	23,340,828
Total funds provided by operations	21,543,617	22,113,852	23,482,870
Net effect on budgetary expenditures	−24,200	962,709	−142,042
The above amounts are charged (or credited (−)) as follows:			
To budgetary authorizations	−200,000	−472,985	−100,000
To receipts of the enterprise	175,800	1,435,694	−42,042
Total	−24,200	962,709	−142,042

B. STATEMENT OF INCOME, EXPENSES, AND RETAINED EARNINGS FOR FISCAL YEARS ENDING JUNE 30, 1951, 1952, AND 1953

SALES PROGRAM						
Income from sales		$21,441,758		$22,032,555		$23,389,219
Expenses:						
Cost of goods sold:						
Purchases	$15,642,169		$15,865,896		$16,734,209	
Increase in inventory	−421,424		−109,583		−32,848	
Cost of goods sold	15,220,745		15,756,313		16,701,361	
Direct operating expenses	4,191,968		4,546,117		4,816,716	
Indirect operating expenses	974,705		1,127,585		1,128,979	
Subtotal	20,387,418		21,430,015		22,647,056	
Depreciation	205,946		284,343		345,069	
Total expenses		20,593,364		21,714,358		22,992,125
Net income from sales program		848,394		318,197		397,094

NONOPERATING INCOME OR EXPENSE						
Miscellaneous income		60,678		53,678		57,035
Net book value of assets sold	41,226		29,616		44,168	
Proceeds from sale of fixed assets	26,014		27,619		36,616	
Loss on sale		15,212		1,997		7,552
Net nonoperating income		45,466		51,681		49,483
Net income for the year		893,890		369,878		446,577
ANALYSIS OF RETAINED EARNINGS (OR DEFICIT (—))						
Balance at beginning of year		2,604,097		3,501,975		3,871,853
Net income for the year	893,890		369,878		446,577	
Adjustment of prior year expenses	1,187		0		0	
Adjustment for donated property	2,831		0		0	
Total		897,878		369,878		446,577
Retained earnings, end of year		3,501,975		3,871,853		4,318,430

Operation of canteens, revolving fund—Continued

C. STATEMENT OF FINANCIAL CONDITION, AS OF JUNE 30, 1950, 1951, 1952, AND 1953

	1950 actual	1951 actual	1952 estimate	1953 estimate
ASSETS				
Cash:				
With U. S. Treasury	$2,787,913	$2,612,113	$1,176,419	$1,218,461
On hand, in banks, and in transit	2,232,861	2,051,586	2,958,576	3,064,439
Total cash	5,020,774	4,663,699	4,134,995	4,282,900
Accounts receivable	177,346	244,451	246,000	250,000
Inventories: Commodities for sale	1,738,728	2,160,152	2,269,735	2,302,583
Equipment	1,447,409	2,107,204	2,705,889	3,155,692
Less portion charged off as depreciation	262,895	447,315	687,235	966,051
Net equipment	1,184,514	1,659,889	2,018,654	2,189,641
Other assets	30,300	55,924	63,000	68,500
Total assets	8,151,662	8,784,115	8,732,384	9,093,624
LIABILITIES				
Accounts payable	945,730	749,837	787,816	799,113
Accrued and other liabilities	817,854	910,963	924,360	927,726
Total liabilities	1,763,584	1,660,800	1,712,176	1,726,839
INVESTMENT OF U. S. GOVERNMENT				
Non-interest-bearing investment: Appropriation	3,500,000	3,300,000	2,827,015	2,727,015
Donated property	283,981	321,340	321,340	321,340
Retained earnings	2,604,097	3,501,975	3,871,853	4,318,430
Total investment of U. S. Government	6,388,078	7,123,315	7,020,208	7,366,785
Total liabilities and investment of U. S. Government	8,151,662	8,784,115	8,732,384	9,093,624

(Thereupon, at 3:15 p. m., the subcommittee recessed subject to the call of the chairman.)

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